

# Financial Management in Child Nutrition Programs





## Definitions

In this guidance the following terms will be used:

2 CFR Part 200	The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.
<i>Allowable</i>	Direct or indirect costs that may be paid by SNP funds.
<i>Audit</i>	An independent examination of accounting and financial records for accuracy, efficiency, and consistency. This is also called the annual audit or single audit.
<i>Allocable</i>	Assigning a cost, or group of costs, to one or more cost objectives, in reasonable and realistic proportion to the benefit provided or other equitable relationship—the cost meets one of the following principles: <ul style="list-style-type: none"><li>- is incurred specifically for the award/program <u>or</u></li><li>- benefits both the award/program and necessary work and can be distributed in reasonable proportion to the benefits received <u>or</u></li><li>- is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.</li></ul>
<i>Capital Expenditures</i>	A direct cost expense for an item to be used for general purposes and intended to be used for multiple years.
<i>Cost Objective</i>	Program function or activity for which cost data and for which specification is made to accumulate and measure the cost of the processes, products, jobs, or other expenses.
<i>Direct Cost</i>	Expenses that can be identified specifically with a particular cost objective used to meet a specific program goal or goals.
<i>Equipment (Property)</i>	Items which have been purchased and are nonexpendable; items have a useful life of more than one year. Equipment purchases of \$5,000 or more are capital expenses and require prior approval. <sup>1</sup>
<i>Excessive Fund Balance</i>	Fund balance that exceeds three months of operating expenses. For NSLP and SBP an excessive fund balance refers to <i>net cash resources</i> .

---

<sup>1</sup> KDE must approve capital expenditures before a capital expenditure purchase is made.

<i>Expenditures (Costs)</i>	An amount of money that is spent on an item or service.
<i>Federal Cost Principles</i>	Subpart E of the 2 CFR Part 200 “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards”. Provides principles and procedures for the identification and recovery of allowable direct and indirect costs.
<i>Fund Balance (Net Cash Resources)</i>	The net cash resources available in the nonprofit school food service account. A sponsor must not carry a negative fund balance into the next school year or maintain an excessive fund balance on hand.
<i>Indirect Cost</i>	Expenses that are incurred for the benefit of multiple programs or functions and are necessary for the general operation of the SNP program—but cannot be directly attributable to the program.
<i>Indirect Rate</i>	An established percentage of awarded funds that is dedicated to pay costs that have been identified as indirect costs.
<i>Internal Control</i>	Process designed to establish and maintain effective internal control over the SNP’s financial management system that provides reasonable assurance that the sponsor is managing the program in compliance with all federal, state, and local regulations and terms and conditions of the program award.
<i>Necessary</i>	An item or service that is essential to the operation of the program.
<i>Net Cash Resources</i>	<p>The amount of funds the SNP account has available to spend—total revenue less total liabilities (expenditures). USDA further defines <i>Net Cash Resources</i> as</p> <p><i>This includes all monies, as determined in accordance with the State agency’s established accounting system that are available to or have accrued to a school food authority’s nonprofit school food service at any given time, less cash payable. Such monies may include, but are not limited to, cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds or other negotiable securities.</i></p> <p>See the <i>Effective Accounting Systems</i> subsection in this section for additional information on the standards for an effective financial management system.</p>
<i>Operating Months</i>	Months during the school year that CEs operate any child nutrition program—NSLP, SBP, or the summer feeding programs.
<i>Program Integrity</i>	Organized and structurally sound financial management system that promotes program efficiency and prevents the inappropriate use of program funds.

<i>Program Specific Audit</i>	A review of the financial transactions—income and expenditures—and accounting procedures for a designated program.
<i>Reasonable</i>	An amount that does not exceed a cost that would be incurred by a prudent person under similar circumstances.
<i>Revenue</i>	Income received by an organization.
<i>Revenue to the School Nutrition Program (SNP) Account</i>	<p>All income that is collected or awarded to the SNP account is revenue (or income) to the SNP account. This includes, but is not limited to, the following:</p> <ul style="list-style-type: none"> <li>– Federal reimbursement</li> <li>– State or local funds, such as per meal subsidies and state revenue matching funds</li> <li>– Students’ payment for reimbursable meals and a la carte sales</li> <li>– Payments for items purchased for fund raisers and vending machines</li> <li>– Income from catering and adult meals</li> </ul>
<i>School Food Authority (SFA)</i>	The Child Nutrition Program operating within a sponsoring organization.
<i>School Nutrition Program (SNP)</i>	The federal Child Nutrition Programs in which an LEA participates in such as the national school lunch or school breakfast programs.
<i>Single Audit</i>	An organization –wide review of the financial transactions—income and expenditures—and accounting procedures.
<i>Sponsoring Organization or Local Education Agency (LEA)</i>	The organization (school district, private school or RCCI) that has entered into an agreement with SCN to participate in a Child Nutrition Program
<i>State Matching Funds</i>	Matching funds provided to local education agencies (LEAs) that participate in NSLP by the state of Kentucky based on the number of lunches reported on reimbursement claims filed during the period of September 1 through August 31 of the prior year. RCCIs and private schools do not receive state matching funds.
<i>Supplies</i>	Items that are expendable or consumed in day-to-day activities and replenished as needed.
<i>Unallowable</i>	Any cost that cannot be paid by SNP funds.

# Financial Management in Child Nutrition Programs

---

The nonprofit school foodservice account in a child nutrition program is required to comply with generally accepted accounting principles (GAAP) for federally funded programs as well as accounting and financial requirements that are specific to the program.

This guide provides information on accounting and financial requirements for the following programs:

- National School Lunch Program (NSLP)
  - Afterschool Care Program (ASCP)
  - Seamless Summer Option (SSO)
  - Fresh Fruit and Vegetable Program (FFVP)
- School Breakfast Program (SBP)
- Special Milk Program (SMP)

This guidance applies to all sponsoring organizations whether they are public schools, private schools, or residential child care centers (RCCIs). All sponsors are expected to adopt financial practices that align to all applicable regulatory guidance concerning the financial management of federal child nutrition funds.

## Information Box 1

### Guidance on Program Financial Issues

The following federal publications provide detailed guidance on accounting and financial requirements:

United States Office of Management and Budget (OMB), *2 CFR, Subtitle A, Chapter II, Part 200—Uniform Administrative Requirements, Costs Principles, and Audit requirements for Federal Awards*, available at [www.ecfr.gov/](http://www.ecfr.gov/)

United States Department of Agriculture (USDA), *USDA Memo SP 41-2011, Indirect Costs: Guidance for State Agencies and School Food Authorities*, available [here](#) or SCNs website.

(September 1, 2016), Institute for Child Nutrition (ICN), *ICN Financial Management Information System, 2<sup>ND</sup> Edition (2015)*, available [here](#) or on SCNs website.

In order to meet this requirement, sponsoring organizations must have an accurate, efficient financial management information system that applies sound and consistent management practices that allows them to

- Identify all funds received and expended by program.
- Identify the source and application of school nutrition program funds.
- Ensure effective control over, and accountability for, all funds, property, and other assets.
- Provide accurate, current, and complete disclosure of financial and accounting system as required.
- Operate under specific written procedures for determining the allowability of costs.

## **Regulatory Authorities**

The majority of sponsoring organizations are governed by the financial regulations of more than one federal, state, or local agency. If funds are received from the United States Department of Agriculture (USDA) through the Division of School and Community Nutrition (SCN) in the Kentucky Department of Education (KDE) for the operation of a Child Nutrition Program (CNP), the sponsoring organization must follow all applicable USDA regulations. If another governing agency has a more restrictive requirement, this will apply as well as long as it does not conflict with USDA regulations. This applies to all financial transactions, including procurement.

## **Program Integrity and Internal Controls**

The sponsoring organizations financial management information system must promote program integrity and establish internal controls.

*Program Integrity is defined as an organized and structurally sound financial management system that promotes program efficiency and prevents the inappropriate use of program funds.*

This type of financial management system provides safeguards that improve the stewardship of program income and costs and reduces fraud and improper payments by the use of internal controls.

When program integrity is applied to a financial management information system, *Internal controls* means a process designed to establish and maintain effective oversight or internal control over the SNP's financial management system that provides reasonable assurance that the sponsoring organization is managing the program in compliance with all federal, state, and local regulations and terms and conditions of the program award.

The financial management system must have written procedures that describe its:

- (1) Method for determining if a cost is allowable,
- (2) Process for making payments, and
- (3) Procurement procedures<sup>2</sup> as well as
- (4) Records that clearly report all financial transactions.

The financial transactions described in this guidance are also subject to the procurement regulations. Sponsoring organizations must also familiarize themselves with the procurement requirements (See SCNs Procurement Guidance [here](#) on SCNs website).

Well-designed internal controls will result in the following qualities:

- Effectiveness and efficiency of operations
  - Trackable method to reconcile all financial transactions, including but not limited to, bank statements and claims
  - Method to maintain accountability for assets
- Reliability of reporting for internal and external use
  - Preparation of reliable financial statements and reports
  - Safeguards for the loss from unauthorized use or disposition of funds, property, and other assets which safeguarded against loss from unauthorized use or disposition which includes, but is not limited to, the following:
    - Segregation of financial duties
    - Restricted access to information, i.e., one person does not control all financial operations without oversight
    - Edit check mechanisms built into all financial managements operations
- Compliance with applicable laws and regulations.
  - Demonstrate compliance with federal, state, and local statutes, regulations, and the terms and conditions of the program award
  - Prompt action when instances of noncompliance are identified including, but not limited to, noncompliance identified in audit findings.

Internal controls are expected to be in compliance with the *Standards for Internal Control in the Federal Government*<sup>2</sup> issued by the Comptroller General of the United States or the *Internal Control Integrated Framework*<sup>3</sup> issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

---

<sup>2</sup> Available at [www.gao.gov/products/gao-14-704G](http://www.gao.gov/products/gao-14-704G)

<sup>3</sup> Available at [www.coso.org](http://www.coso.org)



# Effective Accounting Systems

The following financial management standards must be considered in developing a financial information management system:

## *Accounting System Qualities*

1. Documentation that demonstrates accurate, current, and complete disclosure of the program's financial transactions—including budgeted authorizations, obligations, unobligated balances, assets, liabilities, and expenditures as well as income or revenue
2. Procedures that ensure that no one person has complete control over all aspects of financial transactions
3. Methodology that allows for the comparison of actual expenditures against budgeted amounts

## *Accounting Practices*

4. Procedures that ensure that all costs are necessary, reasonable, allocable, and allowable
5. Procedures that track the source of funds
6. Procedures that track the allocation or planned use of funds
7. Procedures that track the application or use of funds
8. Procedures that track the person who authorized the use of funds to pay expenses

## *Audit Practices*

9. Procedures that require organization-wide audits, or program specific audits if applicable, to determine, at a minimum, the fiscal integrity of financial transactions and reports, compliance with laws, regulations, and administrative requirements
10. Procedures that ensure that there is a systemic method for assuring timely and appropriate resolution of all audit findings and recommendations, including organization-wide strategies

## **Revenue (Income to the Program)**

All revenues received by or accruing to the SNP account must only be used for the operation and improvement of the school nutrition program.

### **Types of Revenue**

Revenues include, but are not limited to, the following sources of income:

- Catering departments operated by the SNP
- Credits, discounts, and rebates awarded for the purchase of products or services as well as the value of USDA Foods
- Earnings on SNP investments
- Federal and state reimbursements received by or accruing to the SNP account
- Non-federal funds supporting the meal or milk programs
- Other local revenues that support the meal or milk programs
- Snack bar and a la carte incomes
- Student and adult meals or milk in the National School Lunch Program (NSLP), School Breakfast Program (SBP), or Special Milk Program (SMP)
- Vending machine income if operated by the SNP<sup>9</sup>

### **Catering**

If the SNP operates a catering program, it must ensure that the income received for catering events covers the full cost of preparing and serving the catered items.

### **Fundraising**

The SFA may use funds from its SNP fundraising activities for any allowable cost.<sup>10</sup>

### **Funds Raised by Recycling**

If SNP funds are used to purchase recycling equipment or products purchased with SNP funds are recycled, any funds raised from these efforts must be credited to the SNP financial accounts. If the cost and items for recycling is shared with other programs, any funds raised from these efforts must be credited to the SNP financial accounts in proportion to the SNP contribution.

### **Investments**

Earnings on investments using SNP funds totally or in part for investment purposes must accrue to the SNP account and must be used for authorized program purposes.

### Revenue from Meal Service That Includes USDA Foods

All income that comes from any meal service in which USDA Foods were used must be deposited into the nonprofit school food service account and must be used for the operation or improvement of such service. These funds cannot be deposited into a separate account (i.e., catering or vending). Moreover, the LEA cannot reimburse the nonprofit school food service account for the value of the USDA Foods in lieu of depositing all income that comes from these meals into the nonprofit school food service account.

### End of Year Fund Balance (Net Cash Resources)

SFAs must annually report to SCN the financial position of program funds at the close of the prior program year. If the fund balance indicates that the SFA has more than 3 months of operating cost in the closing fund balance, the SFA will be required to submit a spending plan to SCN for approval.

### Excessive Fund Balance (Net Cash Resources)

To maintain the nonprofit status required for the SNP, the fund balance (net cash resources<sup>4</sup>) of the SNP account must not exceed three month's average expenditures at any time. The *Excessive Balance (Net Cash Resources) Calculation Chart* provides an explanation and examples of how to determine if an excessive fund balance exists.

#### Excessive Balance (Net Cash Resources) Calculation Chart

Determine the average monthly operating expenses by dividing the prior year's expenses by the number of months in operation in the prior year.

Prior Year's Expenses		Number Months in Operation Prior Year <sup>5</sup>		Average Monthly Operating Expenses
\$900,000	÷	10	=	\$90,000

Determine if there is an excessive fund balance (net cash resources) by comparing the total net cash on hand (Amount A) to three month's average expenses (Amount B).

Amount A		Average Monthly Operating Expenses		Amount B
Current Operating Balance—Total Net Cash Resources on Hand		(amount calculated for Average Monthly Operating Expenses)		Three Month's Average Expenses
\$200,000		\$90,000	x 3 =	\$270,000

If Amount A is larger than Amount B, then there is an excessive operating balance.

<sup>4</sup> While guidance and regulations use the term *excessive fund balance* in this circumstance, the regulation actually means excessive net cash resources, the amount of funds the SNP account has available to spend — total revenue less total liabilities (expenditures). See the *Definitions* subsection in this section for a more detailed definition.

<sup>5</sup> *Number Months in Operation Prior Year* includes any month when the program was operating any meal program. This includes summer feeding programs.

### **Resolving an Excessive Fund (Net Cash Resources) Balance**

If an excessive fund balance occurs steps to reduce its net cash resources must be taken. Since program funds must be used only for program purposes, excess net cash resources must be reduced by improving the quality of food served or purchasing needed supplies, services, or equipment.

### **Special Guidance, Excessive Fund Balance (Net Cash Resources)**

Allowing net cash resources to build up in the nonprofit school food service account for an extended period to save for a future project is unallowable. If the proposed expenditure project is a construction project, construction projects are typically not allowable.

## **Reimbursement Rates**

Reimbursement rates are updated annually by USDA and posted to their website when released.

## **State Matching Funds**

Public school districts participating in NSLP receive an annual payment of state matching funds based on the number of lunches reported on reimbursement claims filed during the previous year from September 1 through August 31 as required by federal law. These funds are deposited each spring into the each school account. The funds must be used for SNP operation and improvement.

## **Student Account Balances**

If a student account has a balance at the end of the school year, the SFA must make every effort to return the funds. If funds are unable to be returned to the student (or household, if appropriate), the funds must be accounted for as described in the following guidance:

1. Must not be used to offset other non-SNP debt the student has incurred.
2. Must be recorded as deferred revenue<sup>6</sup> (accounting principle).
3. Must not be donated for any purpose unless the SFA has the consent of the parent or guardian.

---

<sup>6</sup> Deferred income is often called *unearned income*. A student's prepayment for meals is considered to be deferred income because the SFA *owes* the income to the student until the student *purchases* food or meals.

## **Expenditures (Costs)**

Revenues must be used for expenses that are necessary for SNP operation and improvement. This includes, but is not limited to, food, equipment, supplies, and program personnel. SNP account funds must not be used for expenditures that are not directly related to the SNP operation and improvement even though the SNP account may be part of the organizations general fund. All expenditures must be reasonable, allowable, and allocable.

All financial transactions related to expenditures are subject to the procurement regulations. Sponsoring organizations must use that guidance as well to ensure that they are in compliance with all regulations related to financial management.

The following guidance must be used in determining if an expense is allowable.

### **Direct or Indirect Costs**

All costs are either categorized as direct or indirect.

#### **Direct Cost**

Direct cost is defined as expenses that can be identified specifically with a particular cost objective used to meet a specific program goal or goals.

*For Example: Cost of food, staff salaries, supplies, and media materials related to the food service program*

#### **Indirect Cost**

Indirect cost is defined as expenses that are incurred for the benefit of multiple programs or functions and are also necessary for the general operation of the SNP program, but these expenses cannot be directly attributable to the program.

*For Example: Costs associated with payroll services, building utilities, or facilities management*

### **Indirect Costs, Equipment and Capital Expenditures**

Equipment and other capital expenditures are unallowable as indirect costs.

### **Indirect Costs, Fundraising**

Both allowable and unallowable fundraising and investment activities must be allocated as an appropriate share of indirect costs as described in the terms and conditions of the award.

### **Indirect Rate, Kentucky Public Schools**

The indirect cost rate for public schools operating the NSLP or SBP has been established by the Kentucky Department of Education and is posted annually on their website. The established non-restricted rate is the rate applicable to Child Nutrition Programs. The expense items that are not allowable as direct costs are listed in the LEA's indirect agreement with KDE.

### Indirect Rate, Private Schools and Residential Child Care Institutions (RCCIs)

Private schools and RCCIs may use an existing indirect cost rate previously approved by a cognizant federal agency. If an approved indirect cost rate is not in place, these organizations may use a de minimis rate of 10%.

### Indirect Cost, Consistent Application

It is unallowable to bill the nonprofit school food service account for indirect costs for prior years unless an agreement exists to show that the general fund has been *loaning* the nonprofit school food service account funds to cover the indirect costs in the prior year(s).

### Questions Related to Determining Direct or Indirect Costs

In determining whether a cost should be a direct or indirect cost, the CE should use the following questions to help decide whether the cost is direct or indirect:

Questions to Consider	Common Practices
Does the cost benefit multiple programs or other cost objectives, or is it solely for the school food service?	<i>Costs that are common to more than one program are typically appropriate to allocate as indirect costs. Costs which are unique to a specific program are typically appropriate to allocate as direct costs.</i>
Does the cost have a direct relationship to the operation of the SNP?	<i>Costs which are unique to the SNP are commonly direct costs.</i>
How are similar costs treated in other cost objectives?	<i>CEs must apply direct and indirect costs consistently across all programs.</i>
How has this cost been treated in the past--an indirect or direct cost?	<i>CEs must treat costs as direct or indirect consistently over time.</i>

### Lower Rate for SNP

If the LEA chooses to use a lower indirect rate for the SNP than it uses for other programs, documentation should be maintained of when this started. SNP funds cannot be retroactively charged for the use of a lower rate unless documentation has been maintained that demonstrates that the lower rate was a loan and meets all of the criteria described in the *Loans from the general fund to the SNP Account to the SNP, Retroactively Determined As a Loan* subsection in this section.

## Factors Affecting the Allowability of Costs

To determine if a cost is allowable the following factors must be considered:

### Reasonable

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the purchase decision was made. In determining the reasonableness of a purchase cost, consideration must be given to the following issues:

- *Necessary*. Is the cost generally recognized as ordinary and necessary for the operation of the SNP or the proper and efficient performance of the program?
- *Sound Business Practices and Regulations*. Does the purchase meet the standards or regulations imposed by sound business practices; federal, state, local, tribal, and other laws and regulations; and terms and conditions of the sponsoring organizations agreement with KDE?
- *Fair Price*. Is the cost in line with market prices for comparable goods or services for the geographic area?
- *Prudent*. Have the individuals involved with the purchase acted sensibly<sup>15</sup> in the situation or circumstance considering their responsibilities to the sponsoring organization?
- *Established Practices*. Does this purchase significantly deviate from the established practices and policies regarding such purchases?

### Allocable

A cost is allocable to a particular program or other cost objective if the goods or services involved are chargeable or assignable to that program or cost objective based on the relative benefits received. In determining if a cost is allocable, consideration must be given to the following issues:

- *Purpose*. Is the purchase cost aligned with the purposes described for the federal program for which the funds were awarded?
- *Shared Benefits*. If the purchase benefits both the program and other non- program activities can the cost be distributed in proportionally to all programs that benefit from the purchase?
- *Necessary and Allowable*. Is the cost necessary and allowable?
- *Indirect Costs*. Will any indirect costs associated with this purchase be treated consistently across programs, including the determination of unallowable and allowable cost?

## Consistency

The cost must be consistent with the policies and procedures that apply uniformly to both the federally-financed and other activities of the sponsoring organization.

- *Ordinary and Common.* Is the item or service generally considered an ordinary and a common expense for an SNP program?
- *Consistent Treatment.* Is the cost for the item or service consistent with the way the sponsoring organization charges the costs for other programs for direct and indirect costs?

## Is the Cost Allowable?

Using the criteria described in the *Necessary and Reasonable* and *Allocable* in this guidance, the SFA determines if the cost of the item is allowable. The cost of an item or service is allowable if it meets the criteria described in the following questions:<sup>7</sup>

### *Questions to Help Determine if a Cost Is Necessary, Reasonable, and Allocable*

- *Could the SFA justify the purchase to USDA, SCN, the media, or auditors? Would a taxpayer deem the cost to be appropriate for the objectives of the SNP?*
- *Would a prudent person consider the cost to be reasonable? Is the cost charged at a fair rate or do alternatives exist that may be more cost effective?*
- *Does the item or service support the operation of the program? Does the item or service help the SFA to achieve program objectives?*

### *Questions to Help Determine if a Cost Is Consistent with Federal, State, and Local Requirements*

- *Is the payment method for the item or service consistent with the way other programs pay for direct and indirect costs?*
- *Has the SFA made sure that the cost of the item or service is not associated with any cost or matching contributions for any other grant?*

### *Questions to Help Determine if a Cost Is in Line with Accounting Principles*

- *Is the use of the item or service recognized as ordinary and appropriate for SNP operation?*
- *Is use of the item or service consistent with federal law, regulation, and terms of the grant or contract?*
- *Is payment for item or service consistent with the Generally Accepted Accounting Principles (GAAP)?*
- *Will payment for the item or service be made from SNP funds or from general funds?*
- *Is the invoice and payment for the item or service adequately documented?*

---

<sup>7</sup> Questions based on guidance on allowability from 2 CFR, Subtitle A, Chapter II, Part 200—Uniform Administrative Requirements, Costs Principles, and Audit requirements for Federal Awards.



## **General Expenditures— Allowable and Unallowable Costs**

All expenditures must be reasonable, allowable, and allocable. The following examples describe common allowable and unallowable uses of SNP funds.

### **Advertising, Disposal of Surplus Materials**

#### *Allowable:*

- Materials and expenses to obtain services to properly dispose of surplus materials

### **Advertising, Outreach**

#### *Allowable:*

- Materials and expenses for communication with parents and the community about program activities and services

#### *Unallowable:*

- Materials and expenses for public relations materials or activities designed solely to promote CE and not promote the school nutrition program(s) the CE operates

### **Advertising, Procurement**

#### *Allowable:*

- Materials and expenses to publicize procurement solicitations

### **Advertising, Recruitment**

#### *Allowable*

- Materials and expenses to recruit personnel

### **Contributions**

#### *Unallowable*

- Contributions of cash, property, and services by the SFA to another entity

### **Equipment, Disposal of Equipment**

#### *Allowable*

- Costs associated with the disposal or transfer of equipment if the SFA disposes and does not use the equipment as a trade in on new equipment.

## **Equipment, Expendable Equipment and Other Supplies**

### *Allowable*

- Materials or supplies used specifically in the SNP operation, including items that must be replaced from time to time: pots and pans, serving trays, dishes, glassware, silverware, linen, mops, brooms, and cleaning supplies

*If the SFA purchases items as part of central contract, supplies must be charged to the program at net cost.*

## **Equipment, Nonexpendable Items**

### *Allowable*

- Items or equipment used directly in preparing, storing, or serving meals, including items such as ranges, refrigerators, freezers, steam tables, mixers, storage cabinets, garbage containers, tables, chairs, hot water heaters, and portable fans

*This category may include charges for installing equipment and connecting to utilities in the building in which the SNP operates as well as maintenance service, upkeep, and repair of equipment.*

## **Equipment, Office Equipment**

### *Allowable*

- Items used to support program goals and objectives including such items as cash registers, adding machines, software, communication equipment, and other equipment used exclusively for the SNP operation as well as maintenance, upkeep, and repair of allowable office equipment

*This category may include charges for installing equipment and connecting utilities in the building in which the SNP operates as well as maintenance service, upkeep, and repair of equipment.*

## **Equipment, Office Equipment, Cell Phone**

### *Allowable*

- Cell phones and cell phone expenses if the cell phone contract is in the sponsoring organizations name and not in the name of the individual employee using the cell phone

### *Unallowable*

- Cell phones and cell phone expenses considered to be a stipend or allowance
- Cell phones and cell phone expenses purchased and registered in the name of the employee

## **Equipment, Computers**

### *Allowable*

- Computers/computing devices that are essential to program operation

## **Facilities, Improvement, Rearrangement, and Reconversion**

### *Allowable*

- Supplies, equipment, and labor costs associated with facility improvement, rearrangement, and reconversion with SCN approval before incurring the cost

### *Unallowable*

- Supplies, equipment, and labor costs associated with facility improvement, rearrangement, and reconversion without SCN approval before incurring the cost

## **Facilities, Insurance**

### *Allowable*

- Premiums for covering SNP property in connection with general operations and sound business practices
- Premiums for insurance that the SFA is required to carry by federal, state, or local regulation or law

### *Unallowable*

- Loss resulting from failure to maintain insurance as prescribed by regulation

## **Facilities, Land Purchase, Acquisition, and Construction**

### *Allowable*

- Payment to purchase land, acquire or construct buildings, or make alterations to existing buildings that materially increase the value of capital assets when the SFA has been approved to do so prior to purchase

*A request for this type of purchase must be sent to SCN. The request will be reviewed and submit it to USDA for approval.*

### *Unallowable*

- Payment to purchase land, acquire or construct buildings, or make alterations to existing buildings that materially increase the value of capital assets unless the SFA has been approved to do so prior to purchase

*A request for this type of purchase must be sent to SCN. The request will be reviewed and submitted to USDA for approval.*

## **Facilities, Rental of Facilities or Equipment**

### *Allowable*

- Rental or lease fees for facilities that are not owned by the sponsoring organization such as cafeterias, kitchens, or storage facilities required for specific program needs

### *Unallowable*

- Rental or usage fees for equipment or facilities such as cafeterias, kitchens, or storage facilities that are owned by the sponsoring organization

## **Facilities, Security**

### *Allowable*

- Expenses for the protection and security of facilities, personal, and work products including wages and uniforms of personnel engaged in security activities, equipment, barriers, and contracted services

## **Facilities, Services**

### *Allowable*

- Services which are necessary for the operation of the program, including services such as pest control, trash removal, security, and janitorial

## **Facilities, Utilities**

### *Allowable*

- Actual costs accounted for separately or prorated for the SNP and applied consistently for all programs. A reasonable method to determine the cost of utilities must be used

*The best method is using separate meters. Applying the square foot percentage of total building space in use by the SNP to determine the proportion of the utility cost is an acceptable method. In all cases, the sponsoring organization must retain documentation that demonstrates that the method for determining utility costs is reasonable.*

## **Financial, Audits**

### *Allowable*

- Cost for audits conducted in accordance with program requirements or a proportional share of the costs of audits (if the audit covers non-SNP programs) conducted in accordance with program requirements

### *Unallowable*

- Cost for any audit not conducted in accordance with requirements

## **Financial, Cost Sharing**

### *Unallowable*

- Charging any goods or services that are part of a cost sharing or matching requirement to the food service account, including prorating of expenses in an inconsistent method with other programs without adequate documentation

## **Financial, Depreciation**

### *Allowable*

- Depreciation or use allowances based on a straight line calculation method (the pattern of consumption of the asset) that have a useful life of more than one year for assets purchased after December 26, 2014<sup>8</sup> or another method which allows the LEA to demonstrate with clear evidence that the expected pattern of consumption would be greater in the earlier portions of the asset's useful life

### *Unallowable*

- Depreciation calculated by any method other than a straight line calculation for items purchased after December 26, 2014 unless the LEA is able to demonstrate with clear evidence that the expected pattern of consumption would be greater in the earlier portions of the asset's useful life
- Depreciation recorded on the cost of land; any portion of the cost of a building donated by the federal government no matter where the title was originally vested
- Depreciation for any asset purchased with restricted program funds
- Depreciation for any asset that has been paid for in full though payments were made over more than one fiscal year
- Depreciation for any asset that has outlived its depreciable life
- Depreciation for any asset that is paid for in full in the current fiscal year

## **Financial, Improperly Procured Products or Services**

### *Unallowable*

- Costs incurred as result of improperly procured products and/or services whether the cost be incurred as a result of micro-purchase, small purchase, invitation for bids, or request for proposals methods of purchasing

---

<sup>8</sup> Not all SFAs depreciate equipment. Use of the depreciation option is often determined by requirements from the funding source. SFAs should consult with business or financial managers to determine the appropriate depreciation use allowances for their programs. The straight-line depreciation method identifies the number of years an asset, tangible or intangible, is expected to function and divides the total cost by the number of years.

### **Financial, Interest**

#### *Allowable*

- Interest at the prevailing loan rate

#### *Unallowable*

- Interest costs for the use of the program's own funds
- Expenses used for lobbying and membership in an organization that devotes substantial activities to lobbying and influencing legislation

### **Financial, Scholarship**

#### *Unallowable*

- Use of funds from any SNP payments, rebates, credits, or other income for student scholarships

### **Financial, School Improvement**

#### *Unallowable*

- Use of funds from any SNP payments, rebates, credits, or other income for school improvement expense

### **Food Operation, Food Service**

#### *Allowable*

- Food purchases and costs directly related to the storage, handling, processing, and transportation of food

### **Fundraising, Actions to Raise Funds for the Program**

#### *Allowable*

- Costs related to the physical custody and control of monies and securities that result from fundraising
- Costs for the purposes of meeting the Federal program objectives are allowable with prior written approval from the Federal awarding agency.

#### *Unallowable*

- Costs of organized fundraising , including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions
- Costs of investment counsel and staff and similar expenses incurred to enhance income from investments are unallowable except when associated with investments covering pension, self-insurance, or other funds which include Federal participation allowed by this part

## **Legal Expenses, Attorney's Fees**

### *Allowable*

- Appropriate fees that are consistent with normal program operations *SFAs must consult with SCN when there is a question as to whether the fee supports normal program operations.*

### *Unallowable*

- Costs incurred in the defense of any civil, criminal, or administrative fraud proceeding or similar charge

## **Legal Expenses, Fines and Penalties**

### *Unallowable*

- Fines, penalties, damages, or other settlements resulting from violations or alleged violations of, or failure of the entity to comply with, federal, state, local, or other government agencies

## **Lobbying, Political Activities and Events**

### *Unallowable*

- Expenses used to influence the outcomes of any federal, state, or local election, referendum, initiative, or similar procedure, through in-kind or cash contributions, endorsements, publicity, or similar activity
- Expenses used to establish, administer, contribute to, or pay the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections in the United States
- Expenses used in an attempt to influence the introduction of federal or state legislation; the enactment or modification of any pending Federal or state legislation through communication with any member or employee of the Congress or state legislature (including efforts to influence state or local officials to engage in similar lobbying activity); or any government official or employee in connections with a decision to sign or veto enrolled legislation
- Expenses used to attend a legislative session or committee hearing with the intent of gathering information regarding legislation and analyzing the effect of legislation when such activities are carried on in support of or in knowing preparation for an effort to engage in unallowable lobbying

## **Meal Accommodation**

### *Allowable*

- Expenses related to a required meal accommodation as described in a medical statement or written into a student's Individualized Education Plan (IEP)

## **Outreach and Public Relations, Committees**

### *Allowable*

- Expenses for organizing or activities related to committees or councils that increase outreach and promote program involvement

## **Outreach and Public Relations, Incentives/Prizes to Participating Families**

### *Allowable*

- Reasonable incentives to encourage households to return completed free and reduced-price meal applications

## **Outreach and Public Relations, Promotional Materials**

### *Allowable*

- Exhibits or other information sharing activities related specifically to the SNP as well as printed materials to communicate information and messages central to program operations and program mission
- Activities to maintain and promote understanding and favorable relations with the community or public at large or any segment of the public
- Translation of materials for food service purposes<sup>21</sup>

### *Unallowable*

- Any promotional materials or activities for purposes other than those described as allowable. This includes the following types of costs:
  - Meetings, conventions, and convocations
  - Cost of displays, demonstrations, and exhibits, meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events
  - Salaries and wages of employees engaged in setting up and displaying exhibits, making demonstrations, and providing briefings
  - Cost of promotional items and memorabilia, including models, gifts, and souvenirs
  - Cost of advertising public relations designed solely to promote the SFA

## **Program Operations, Printing and Reproduction Equipment or Services**

### *Allowable*

- Materials used to provide notification, maintain records, or other uses related specifically to program objectives
- Translation of materials for food service purposes<sup>22</sup>



### **Staff, Cafeteria Monitor**

#### *Allowable*

- Funds used for personnel directly involved in operating or administering the SNP who have monitoring duties assigned to them as part of or integral to their regular SNP responsibilities

#### *Unallowable*

- Funds used to pay meal service monitor salaries for personnel not directly involved in operating or administering the SNP and who do not have monitoring duties assigned to them as part of or integral to their regular SNP responsibilities

### **Staff, College Credits**

#### *Unallowable*

- Cost incurred by an individual to obtain the college credits needed to meet the hiring professional standards

### **Staff, Employee Recognition**

#### *Allowable*

- Reasonable expenses for recognizing employee efforts in the following conditions:
  - Activity is a part of the SFAs established practice.
  - The recognition is for employees who work directly for the SNP department or whose salaries are paid out of the SNP fund.
  - Activities or items are intended to improve employee performance.
  - Activities or items are intended to improve employee-employer relations.

### **Staff, Entertainment**

#### *Allowable*

- Costs for amusements, social activities, gratuities, and related activities if the activities do have a specific programmatic purpose and are authorized in an approved budget or written approval from KDE

#### *Unallowable*

- Costs for amusements, social activities, gratuities, and related activities if the activities do not have a programmatic purpose and are authorized in an approved budget or written approval from KDE

## **Staff, Fringe Benefits**

### *Allowable*

- Benefits for employees such as the following: leave, insurance, pension, and unemployment plans provided the following criteria are met:
  - Established in written policies
  - Equitable allocation for related activities for all programs
  - Appropriate accounting procedures are in place

### *Unallowable*

- Benefits that include use of an automobile for personal use of an employee, including transportation to and from work, whether the cost is direct or indirect cost to the program and whether the cost is reported as taxable income to the employee

## **Staff, Health and Welfare of Employees**

### *Allowable*

- Costs for improving working conditions, employee-employer relations, employee health, and employee performance

*To be allowable these goals and actions must be described in the sponsoring organizations written policy, and the cost must be equitably distributed to all programs involved in these activities not just the SNP.*

## **Staff, Labor**

### *Allowable*

- Payments for labor and other services directly related to SNP operation

*This includes employer's share of retirement, social security, insurance payments, and fringe benefits as well as severance required by law, employer-employee agreement, established institutional policy, or circumstances of the particular employment.*
- Prorated portion of the salaries of janitorial, maintenance workers, secretarial, and finance staff for services performed specifically for the SNP operation

## **Staff, Memberships, Subscriptions, and Professional Publications**

### *Allowable*

- Fees for memberships, materials, subscriptions, and professional activities used to benefit or improve the operation of the SNP

### *Unallowable*

- Fees for memberships in any civic or community organization as well as country club or social or dining club or organization
- Costs for membership in organizations whose primary purpose is lobbying

## **Staff, Personal Use**

### *Unallowable*

- Costs of goods or services for an employee's personal use even if reported as taxable income to the employee

## **Staff, Severance Pay**

### *Allowable*

- Payment in addition to regular salaries and wages for workers who are being terminated as long as each instance is (1) required by law and employer-employee agreement and (2) established by policy that constitutes an implied agreement between employee and employer

### *Unallowable*

- Payments that are in excess of normal severance pay paid by the employer upon termination of employment contingent upon a change in management control over, or ownership of the CE's assets

*Severance payment that is considered abnormal or for mass terminations are only allowable on a case-by-case basis. In these cases, the SFA must contact SCN for assistance.*

## **Staff, Training and Conferences**

### *Allowable*

- Costs of meeting and conferences for which the primary purpose is the sharing of technical information including meals, transportation, facility rental, speaker's fees, identification of dependent-care resources, and conference registration fees

*This also includes the costs associated with meeting the professional standards requirements.*

### *Unallowable*

- Costs associated with obtaining a degree to meet the hiring standards
- Costs for daycare for employees attending training or conference

## **Transportation, Meal Production Related Activities**

### *Allowable*

- Reasonable costs associated with purchasing, transporting, and disposing of food items, meals, or stored items used to support the SNP

## **Travel, Conferences and Training**

### *Allowable*

- Expenses incurred for staff travel related to SNP improvement and to meet the professional standards requirements, such as workshops, conferences, and training programs

## **Special Situations, Allowable and Unallowable Costs**

The following guidance describes special situations for allowable and unallowable uses of SNP funds.

### **Allocable Cost Charged to Other Federal Awards**

Any cost to a particular federal award that is allocable may not be charged to other federal awards to overcome fund deficiencies; to avoid restrictions imposed by federal statutes, regulations, or terms and conditions of the federal awards; or for other reasons. However, this prohibition would not preclude a sponsoring organization from shifting costs that are allowable under two or more federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the federal awards.

### **Bad Debt**

Bad debt is defined as debts which have been determined to be uncollectable. Bad debt is an unallowable cost to the program. The sponsoring organization must resolve any negative balance (including net cash resources) to the SNP with non-program funds at the end of the school year. Once debt is determined to be uncollectable any cost associated with legal services for that debt are also unallowable.

After general funds have been used to clear bad debt for the SNP at the end of the school year, the SFA may attempt to collect the bad debt and repay the general fund for the cost of clearing the bad debt. When the SFA continues to collect after it has been cleared, any costs associated with continued collection efforts (staff and other costs) are not allowable costs for the school nutrition program. However, after the general fund covers the cost of bad debt, any funds collected for the debt accrue to the general fund and not the school nutrition program.

### **Bad Debt, Outstanding Student Debt**

Outstanding student debt resulting from nonpayment of school meals or milk is an unallowable cost to the nonprofit school food service account and cannot be absorbed by the SNP department at the end of the school year. It must be paid for with other non-federal sources.

### **Changing Funding Source for a Payment**

If a sponsoring organization pays a bill with funds from the SNP account that was not previously charged to the SNP account, an equal amount of nonfederal funds must be deposited in the SNP account for the payment to be an allowable cost.

## **Employee Timekeeping**

It must be ensured that salary and wage expenses are correctly charged to the SNP. A timekeeping record system, paper or electronic, that accurately reflects the work performed by employees for the SNP must be in place.

The timekeeping record system must meet the following requirements:

- Be supported by a system of internal controls which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.
- Be incorporated into the sponsoring organizations official records that include a hand or electronic signature by the employee and the supervisor certifying the accuracy of the records.
- Comply with the established accounting policies and practices put in place by the sponsoring organization to ensure program integrity.

The timekeeping record system must provide the following information:

- Actual hours worked, not estimated hours worked, for both hourly and salaried employees compensated for each pay period, integrating compensation provided by SNP funds and non-SNP funds.
- Distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on SNP and non-SNP projects.

## **Capital Expenditures**

A capital expenditure is an expense of \$5,000 or more for an item that is to be used for general purposes and is intended to be used for multiple years. For capital expenditures, SFAs must use the following guidance:

### *Prior Approval*

Before making a capital expenditure, the SFA must submit a request to SCN; the SFA must have SCN approval before purchasing the capital expenditure item.

### *Capital Improvements*

Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior approval of SCN.

### *Charge Period*

Capital expenditures must be charged in the period in which the expenditure is incurred unless SCN approves a payment structure that spans multiple funding years.

### *Direct Cost*

Capital expenditures must be coded as a direct cost; they cannot be classified as an indirect cost.

### *Procedure to Request a Capital Expenditure*

To request a capital expenditure, SFAs must complete the capital expenditure form located on SCNs website. Approval is granted on a case-by-case basis.

## **Equipment/Property, Care and Maintenance**

The following guidance for equipment/property bought with SNP funds must be used:

- Must retain equipment/property records that include the following information:
  - Description of the equipment/property
  - Serial number or other identification number
  - Source for the equipment/property
  - Entity holding the title, if applicable
  - Acquisition date
  - Cost of the equipment/property
  - Location
  - Percentage of federal funds in the cost of the equipment/property
  - Disposition data including the date of disposal and sale price of the equipment/property if sold
- Must take a physical inventory of the equipment/property, and the results reconciled with the records at least once every two years.
- Must develop a control system to ensure adequate safeguards to prevent loss, damage, or theft of the equipment/property. Any loss, damage, or theft must be investigated.
- Must develop adequate maintenance procedures to keep the equipment/property in good condition.

## **Equipment/Property, Disposal**

Disposition of equipment/property should follow these requirements:

### *Items Valued Less Than \$5,000*

Items of equipment/property with a current per unit fair market value of less than \$5,000 may be retained, sold, or otherwise disposed of with no further obligation to the SFA.

#### *Items Valued More Than \$5000*

Items of equipment/property with a current per unit fair market value in excess of \$5,000 may be retained or sold. If sold and the SNP paid the total cost of the equipment, the SNP account must be credited for the full amount received for the equipment/property. If sold and the SNP paid a percentage of the total cost for the equipment/property, the SNP must receive a portion of the sale price (percentage of cost) that is equal to the portion the SNP paid (percentage of cost) toward purchase—multiply the current market value or proceeds from sale by SNP share of the equipment/property.

#### *Retired Equipment/Property That Will Not Be Replaced*

Equipment/Property purchases for use in the SNP program must be used by the program(s) for which it was acquired for as long as it is needed. When equipment/property is no longer needed by the SNP and will not be replaced, other USDA programs have first preference in using the equipment/property. If another program uses the retired equipment/property, the use of the equipment/property must not interfere with the work of the SNP.

#### *Retired Equipment/Property That Is Replaced*

If acquiring replacement equipment/property, the SFA may also use the retired equipment/property as a trade-in or sell the property and use the proceeds to offset the cost of the replacement equipment/property.

The SFA must establish proper procedures for the sale of retired or replaced equipment/property to ensure the highest possible return if the equipment/property is sold or donated. All funds from the disposition of equipment/property must be deposited into the SNP account.

### **Nutrition Education Expenses**

Nutrition education and related activity expenses are allowable if the expense meet the following criteria:

1. Are reasonable, necessary and allocable as defined in this section
2. Support the operation of and/or improvement of the SNP objectives to serve nutritious meals that meet the meal pattern.

## Farm to School and School Farm or Garden Expenses and Revenue

SNP funds may be used to support farm to school activities, including school gardens, if the expenditure is an allowable cost. The *Farm to School/School Garden Allowable Cost Assessment Chart* may be used to determine if farm to school or school garden expenses are allowable.

Farm to School/School Garden Allowable Cost Assessment Chart		
<i>If the answer is no, the cost is not allowable.</i>		
<i>SNP Program Objectives</i>		
– Do the farm to school or school garden activities support the SNP objectives and/or promote program improvement? <i>(Includes nutrition education)</i>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
<i>Support the Operation or Improvement of the School Meal Program</i>		
– Is the purchase for the farm to school or school garden activities helping to support the operation of or improvement of the school meal program	<input type="checkbox"/> Yes	<input type="checkbox"/> No
<i>Reasonable</i>		
– Are the costs associated with these activities reasonable—that is <u>proportional</u> to the benefits and results?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
– Are the costs associated with SNP activities or support for or improvement of the SNP program?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
<i>Compliance with NSLP/SBP Meal Pattern ^</i>		
– Are the costs associated with efforts aligned with or supportive of NSLP/SBP meal pattern compliance? <i>(Includes, but is not limited to, activities that enhance students' preference for fruits and vegetables, increase the likelihood of students eating fruit and vegetables offered on the serving line, and nutrition education activities.)</i>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
<i>Proportional Allocation for Staff Salaries*</i>		
– In cases where only a portion of the farm to school or school garden coordinator's time is spent directly in support of the SNP operation, does the site cover the portion of the coordinator's salary that is deemed necessary, reasonable, and allocable?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
^ Net cash resources and prioritizing funds to support the operation or improvement of the school meal program.		
* Staff positions strictly supporting horticulture classes, Future Farmers of American, or other school associations cannot be funded by the SNP account.		



### **Supplies or Equipment for School Farms or Gardens**

If the school farm or garden is used within the context of the school meal programs and serves the purpose of supporting the operation of or improving the school meal program, supplies and equipment for the school farm or garden may be purchased with funds from the SNP account.

Supplies (i.e., seeds, fertilizer, water cans, or rakes) and equipment (i.e., hoop houses and high or low tunnels) are allowable if (1) the SFA has assessed the purchase using the questions from the *Farm to School/School Garden Allowable Cost Assessment Chart* and determined that the costs are allowable and (2) the products grown in the school garden or farm are used within the context of the SNP.

### **Building Structures**

The purchase of land or buildings is not allowable unless the sponsoring organization has received approval prior to purchase. To obtain approval, the SFA must submit an approval request to SCN. SCN will review the request and forward it to USDA for approval.

### **Intergovernmental Agreement**

SFAs may enter into an intergovernmental or interdepartmental agreement with a school farm or garden to purchase products from the garden. The agreement may outline the price for the produce, relative timelines, and expectations of both parties. However, before establishing an agreement, the SFA must conduct a price analysis to ensure that products purchased from the garden are purchased at reasonable prices.

### **Procured Farm to School Products**

SFAs may conduct procurement for garden produce even if the purchase falls below the small purchase threshold. Geographic preference may be used. The SFA must still ensure that products purchased from the garden are purchased at reasonable prices.

### **Sale of Produce from a Garden Funded by the SNP**

If the SFA sells produce from a school garden or farm that is funded by the SNP, the revenue must accrue back to the SNP account. If the SFA contributes a proportion of the total cost, the amount accrued back to the SNP may be proportional to the amount of the SNP's contribution.

### **Use of Fresh Fruit and Vegetable Program Funds (FFVP)**

SFAs must not use funds from the FFVP to purchase supplies or equipment for school gardens.

## **Proportion of Program/Nonprogram Revenue and Food Cost**

Each year, SFAs must assess their revenue from program food (reimbursable meals) and nonprogram food (non-reimbursable meals) to ensure that nonprogram food revenue generates at least the same proportion of revenue as it contributes toward total food costs.

### **Revenue**

For the program/nonprogram proportion, revenue is all money that is provided to the SNP account. This includes, but is not limited to, the following:

- Federal reimbursement
- State or local funds, such as per meal subsidies and State revenue matching funds
- Children's payments for reimbursable meals and a la carte sales
- Credits, rebates, and discounts and USDA Foods values credits
- Income from catering, adult meals, vended meals
- Payments for items purchased for fund raisers and vending machines

### **Nonprogram Revenue**

For the program/nonprogram proportion, nonprogram sales include, but are not limited to, the following:

- A la carte items sold in competition with reimbursable meals
- Adult meals
- Catered or vended meals
- Items purchased for fundraisers, vending machines, and school stores

### **Costs**

The cost of the food used out of the SFAs inventories are used to determine the amount of program/nonprogram food costs. Labor and supplies are not considered when allocating costs. The number of meals claimed for reimbursement by meal type are used to allocate the total cost as program or nonprogram food costs.

### **Cost for Each Meal**

SFAs must annually calculate the average cost of each menu type served. The average meal cost used must be weighted, meaning that the average meal cost calculated accounts for OVS and student choice. All sponsoring organizations have been provided access to the inTEAM menu compliance system in which the pre-cost feature may be utilized to conduct this calculation.

If the nonprogram food revenue is not proportional to program food revenue, the SFA must take action immediately to make the program/nonprogram revenue proportional. *Proportional* means that the food costs for nonprogram foods must be equal to or greater than program food costs, and nonprogram revenue must be equal to or greater than program revenue.

SCN has developed the *NonProgram Revenue Tool Workbook* as well as a four (4) part training series to assist SFAs comply with this annual requirement. Both of these resources are available on [SCNs website](#) and should be utilized when completing this annual requirement.

## **Loans from the General Fund to the SNP, Retroactively Determined As a Loan**

It cannot be retroactively determined that funds transferred from the general fund to cover SNP deficits are a loan subject to repayment. For a liability to exist, a bona fide loan agreement between the sponsoring organization and the SNP must be in effect at the time that the funds are transferred. Records that demonstrate an existing agreement include a written agreement and financial records that document the contributions from the general fund to the nonprofit school food service account.

## **Financial Audit Requirement**

Federal law requires that all non-federal entities that expend \$750,000 or more in federal awards have an annual audit or single (organization-wide) audit or a program specific audit each year. All audits must be conducted in accordance with Generally Accepted Accounting Auditing Standards (GAAS).

## **Other Audits**

SCN retains the right to conduct additional audits as necessary.

## **Compliance**

SCN may take appropriate fiscal action or terminate the Agreement for participation for any sponsoring organization that is not in compliance with the accounting and financial requirements. Any lack of action to appropriately address an audit finding that requires amended claims may result in fiscal action.

Additionally, SCN will assess compliance with the accounting and financial requirements based on the documentation that the SFA has submitted throughout the year as well as documentation submitted for offsite and onsite administrative review processes.

## **Obligation to Report Fraud, Bribery, and Gratuity Violations**

SFAs must report, in writing, all violations of federal criminal law—fraud, bribery, or gratuity.

*The non-Federal entity or applicant for a Federal award must disclose, in a timely manner, in writing to the Federal awarding agency or pass-through entity all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award. Failure to make required disclosures can result in any of the remedies described in § 200.338 Remedies for noncompliance, including suspension or debarment. (2 CFR 200. 113; 31 U.S.C. 3321).*

## **Criminal Penalties Associated With Mishandling of Funds**

The following statement from the NSLP regulations describes the penalties for the misuse or fraudulent use of program funds:

*Whoever embezzles, willfully misapplies, steals or obtains by fraud any funds, assets or property provided under the National School Lunch Program and/or School Breakfast Program whether received directly or indirectly, shall if such funds, assets, or property are of a value of \$100 or more, be fined no more than \$25,000 or imprisoned not more than 5 years or both; or if such funds, assets or property are of a value of less than \$100, be fined not more than \$1,000 or imprisoned not more than 1 year or both. Whoever receives, conceals, or retains for personal use or gain, funds, assets or property provided under the National School Lunch Program and School Breakfast Program, whether received directly or indirectly, knowing such funds, assets or property have been embezzled, willfully misapplied, stolen or obtained by fraud, shall be subject to the same penalties.*

### **Termination of the Permanent Agreement for Financial Fraud or Misuse of Funds**

If serious deficiencies, such as fraud or misuse of funds, occur, and corrective action is not practical, SCN will terminate the sponsoring organizations participation in the SNP. In this case, SCN may also refer the matter to the appropriate local, state, and/or federal authorities.

In accordance with Federal civil rights law and U.S. Department of Agriculture (USDA) civil rights regulations and policies, the USDA, its Agencies, offices, and employees, and institutions participating in or administering USDA programs are prohibited from discriminating based on race, color, national origin, religion, sex, gender identity (including gender expression), sexual orientation, disability, age, marital status, family/parental status, income derived from a public assistance program, political beliefs, or reprisal or retaliation for prior civil rights activity, in any program or activity conducted or funded by USDA (not all bases apply to all programs). Remedies and complaint filing deadlines vary by program or incident.

Persons with disabilities who require alternative means of communication for program information (e.g., Braille, large print, audiotope, American Sign Language, etc.) should contact the responsible Agency or USDA's TARGET Center at (202) 720-2600 (voice and TTY) or contact USDA through the Federal Relay Service at (800) 877-8339. Additionally, program information may be made available in languages other than English.

To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found online at [How to File a Program Discrimination Complaint](#) and at any USDA office or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632-9992. Submit your completed form or letter to USDA by: (1) mail: U.S. Department of Agriculture, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, SW, Washington, D.C. 20250-9410; (2) fax: (202) 690-7442; or (3) email: [program.intake@usda.gov](mailto:program.intake@usda.gov).

USDA is an equal opportunity provider, employer, and lender.